

## House Appropriations panel OKs \$1.7 billion FY 2022 budget bump for IRS

The House Appropriations Financial Services and General Government Subcommittee on June 24 approved by voice vote a fiscal year 2022 budget package for the government departments and agencies under its jurisdiction that calls for a \$13.6 billion allocation for the Internal Revenue Service, an increase of \$1.7 billion over the level enacted for FY 2021.

**URL:** <https://docs.house.gov/meetings/AP/AP23/20210624/112820/BILLS-117-SC-AP-FY2022-FServices-FY22FSGGBill.pdf>

### Program allocations

The subcommittee's proposed budget for the Service includes a baseline allocation of roughly \$13.2 billion plus a program integrity allocation adjustment of \$417 million that the Biden administration requested in its FY 2022 budget blueprint as part of a multi-year effort to beef up compliance and enforcement activities to narrow the "tax gap," the difference between the amount of tax owed to the government and the amount actually collected. (For details on the White House budget blueprint, see *Tax News & Views*, Vol. 22, No. 28, May 29, 2021.)

**URL:** [https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210529\\_1.html](https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210529_1.html)

Across the Service's four program areas, the bill as approved by the subcommittee would provide:

- \$2.9 billion for taxpayer services (an increase of \$385 million above the FY 2021 enacted level);
- \$5.8 billion for enforcement (an increase of \$538 million, including funds from the program integrity allocation adjustment, over FY 2021);
- \$4.6 billion for operations support (an increase of \$650 million, including funds from the program integrity allocation adjustment, over FY 2021); and
- \$305 million for business systems modernization (an increase of \$82 million over FY 2021).

The measure now heads to the full Appropriations Committee for consideration. A mark-up by that panel has not yet been scheduled.

### Senate appropriators hold hearing

On the other side of the Rotunda, members of the Senate Appropriations Financial Services and General Government Subcommittee – who have not yet released their own proposed top-line spending numbers for the IRS – questioned Treasury Secretary Janet Yellen about the administration's budget proposals for the agency at a June 23 hearing.

**Financial account reporting:** Subcommittee ranking member Cindy Hyde-Smith, R-Miss., expressed concern about a proposed financial account reporting requirement in the administration's budget blueprint that she contended could jeopardize taxpayer privacy. Specifically, the proposal would require financial institutions to report gross inflows and outflows of financial accounts to the IRS, with a breakdown for physical cash,

transactions with a foreign account, and transfers to and from another account with the same owner. (Exceptions would apply for accounts with a gross flow below a threshold of \$600.)

Yellen replied that protection of taxpayers' private information is "critically important" to the Service and that the administration's budget blueprint would give the IRS additional funds to modernize its information technology and strengthen its cybersecurity operations. (She noted that the agency is the target of 1.4 billion cyberattacks each year.)

The administration's financial account reporting proposal, Yellen explained, would require financial institutions to provide the requested account information (on a Form 1099) annually for each taxpayer on an aggregate basis rather than at the transaction level. She also noted that the proposal is intended to help the Service to identify previously unreported income streams so that it can more easily determine which taxpayers need to be audited and which ones do not as part of its stepped-up effort to address the tax gap. Echoing comments that Treasury and IRS officials have made at other recent hearings, Yellen commented that tax compliance levels are highest among wage earners, whose income is routinely reported to the IRS, but fall off among some wealthier individuals, who more frequently have sources of income that aren't subject to third-party reporting.

**Targeting enforcement efforts:** Subcommittee member Chris Coons, D-Del., asked Yellen how the Service intends to ensure that the administration's proposed increases in the IRS's enforcement budget – the \$417 million requested for FY 2022 plus an additional \$80 billion in proposed mandatory spending over the 10-year budget window – will be directed to improving compliance among high-net-worth individuals.

Yellen told Coons that the Service will use the additional funds to hire auditors who specialize in cases involving high-net-worth taxpayers, tiered partnerships, complex transactions, and other areas where noncompliance rates are highest.

Yellen added that an additional investment of \$80 billion in enforcement – the amount the administration has requested as mandatory spending for the IRS in its budget blueprint – would net \$240 billion in additional revenue over 10 years, noting that revenue collections could be lower in the early years due to the time required to bring on new agents and carry out complex examinations. As the more sophisticated enforcement operations mature over the longer term, Yellen said, every additional \$1 in enforcement spending is likely to generate \$5 in increased revenue.

## 2020 Data Book

In other IRS developments this week, the agency released its 2020 Data Book, which provides detailed statistics on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities for the period from October 1, 2019 through September 30, 2020.

**URL:** <https://www.irs.gov/pub/irs-pdf/p55b.pdf>

The data book notes, among other things, that the IRS in FY 2020 processed more than 240 million tax returns and forms, collected nearly \$3.5 trillion in federal taxes, and issued more than \$736 billion in refunds

(including \$268.3 billion in economic impact payments issued during the fiscal year, which were classified as refunds).

On the compliance side, the data book provides statistical details on activities such as audits of corporate and individual tax returns, collections of delinquent tax payments, resolution of cases by the IRS's Appeals Division, and the disposition of civil and criminal tax investigations.

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